



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 6/2/2003

GAIN Report #TU3013

Turkey

Cotton and Products

Annual

2003

Approved by:

Robert Hanson, Acting Agricultural Counselor
U.S. Embassy, Ankara

Prepared by:

Ibrahim Sirtioglu, Agricultural Marketing Specialist

Report Highlights:

MY2003 Turkish cotton area and production are estimated to be up marginally compared to last year at about 710,000 hectares and 925,000 MT. Domestic cotton utilization and imports are expected to recover in MY2003 due to increased product exports. While total imports at the end of MY2002 are expected to be lower, the market share U.S. cotton has increased to over sixty percent during the first eight months of the marketing year.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Ankara [TU1], TU

Executive Summary	1
Production	1
Consumption	3
Trade	4
Stocks	6
Policy	6
Marketing	7

Executive Summary

According to the available data MY 2003 cotton area and production will be only marginally higher than last year, at about 710,000 hectares and 925,000 MT. Most observers think cotton production will fluctuate between 900,000 MT and 1 MMT depending on market and weather conditions for the next few years. Expansion in the Southeast Anatolian region is expected to compensate for declining acreage in traditional cotton growing areas, particularly in the Cukurova region and to a lesser degree in the Aegean region.

Domestic cotton consumption in MY2002 is estimated to be about 1.33 MMT compared to 1.43 MMT in MY2001. Lower total cotton consumption is partially due to low domestic demand for textiles due to the lingering economic problems. MY2003 domestic consumption is expected to recover to about 1.40 MMT due to an expected increase in textile exports. The SARS outbreak in Asia has reportedly shifted some textile orders of international buyers to Turkey. During the first five months of CY2003 year textile exports showed a 30 percent increase in U.S. dollar terms compared to last year. Domestic capacity is continuing to increase as many mills invest to increase their capacity and to update their technology.

MY2002 cotton imports are estimated to be about 450,000 MT, significantly less than last year's record imports of 624,000 MT. Total imports in MY2003 are projected to be higher than MY2002 at about 525,000 MT with a strong U.S. market share. The sharp decline in MY 2002 imports is attributed to local mills utilizing their carry-over stocks during the year and to low domestic textile consumption. According to the official figures during the first eight months of MY2002 cotton imports are 238,078 MT which is significantly less than the same period last year. Mills are reportedly taking advantage of recent drops in U.S. prices and bookings are reported to be continuing. An additional 200,000 MT is expected to be imported during the last four months of the season bringing the total for the year to 450,000 MT.

While total imports are decreasing, U.S. cotton's market share is increasing. Imports from other sources such as Greece, Syria, and CIS are down significantly. Total imports from the U.S. reached 145,381 MT during first eight months of MY2002 representing sixty-one percent of the total imports compared to fifty-two percent during the same period last year.

Production

Crop estimation and forecasting is an imprecise science in Turkey due to the lack of systematic crop surveys. According to private sources MY2003 cotton area and production will be about 710,000 hectares and 925,000 MT respectively. Acreage and production has grown slowly over the past few years and is expected to remain relatively stable in the near future.

Most of Turkey's cotton is grown in three main areas: the Aegean, Cukurova, and Southeastern Anatolian regions. Small amounts of cotton are also produced around Antalya. In general, the medium-term trend is for cotton production to increase in the Southeastern Anatolian region and decrease in the Aegean and Cukurova regions.

Even though Aegean cotton generally is considered to be the best quality and is preferred by the local textile industry, the quality of cotton grown in the Southeast Anatolia region is improving year by year. Aegean cotton is longer (1 1/8") than cotton from Cukurova (1 3/32") and other regions. The trend is for cotton production to increase in Southeast Anatolia as a result of Southeastern Anatolian Project (GAP). The GAP project consists of a series of hydroelectric and irrigation dams. When completed in the year 2010, a total of 1.7 million hectares of land will be irrigated. Currently

about 220,000 hectares of land is irrigated of which 140,000 hectares is on the Harran Plain. The great majority of the irrigation water is supplied by the Ataturk dam and ninety percent of the area is planted in cotton.

Given the slow pace of extending of irrigation infrastructures in the Southeastern Anatolian Project (GAP), gradual increases in cotton area are expected to offset declining cotton area in traditional growing areas for the next several years. Currently, the major shift from cotton production is occurring in Cukurova, where farmers are shifting to a wheat-corn rotation or to horticultural production. In the medium-term, cotton production in the Cukurova region is expected to continue to decline.

Cotton generally is planted between mid-March and mid-May and harvest usually begins in mid-August and continues through November. The most popular variety in the Aegean region is "Nazilli 84", in Cukurova "Carolina Queen" and "Delta Pine " and "Stone Mill", "Carmen" and "Gold" in the Southeast.

Virtually all of Turkey's cotton is handpicked. Increasing harvest labor costs (estimated to account for about forty-five percent of the total production costs) have added to the already relatively high capital costs of cotton production and have caused farmers to shift to less capital-intensive crops in traditional cotton growing areas. As a result, there is a growing interest in machine harvesting. The number of cotton picking machines are increasing very slowly due to their high cost and machine-picked cotton is estimated to be less than one percent of the total.

Most of Turkey's estimated 500 gins are privately owned. The majority of the gins in the Aegean region are roller gins, more suitable for longer staple cotton, while about half the gins in Cukurova and the southeast are roller gins and about half are saw gins. The ginning rate averages about 42 percent in the Aegean Region and about 39 percent in Cukurova. Ginners generally purchase seed cotton from growers. As a result, ginners play an important role in domestic marketing channels. Lint generally is graded and certified by government-regulated inspectors at the gins. Domestic regulations require that all locally produced cotton be ginned before the end April.

PSD Table						
Country	Turkey					
Commodity	Cotton				(HECTARES)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		08/2001		08/2002		08/2003
Area Planted	0	693000	0	700000	0	710000
Area Harvested	693000	693000	710000	700000	0	710000
Beginning Stocks	192035	190152	315704	226147	244942	206147
Production	865463	865000	892679	900000	0	925000
Imports	624440	624340	457226	450000	0	525000
TOTAL SUPPLY	1681938	1679492	1665609	1576147	244942	1656147
Exports	27216	28345	27216	45000	0	35000
USE Dom. Consumption	1339018	1425000	1393450	1325000	0	1400000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1339018	1425000	1393450	1325000	0	1400000
Ending Stocks	315704	226147	244942	206147	0	221147
TOTAL DISTRIBUTION	1681938	1679492	1665608	1576147	0	1656147

Consumption

The textile industry is one of the most important and dynamic sectors in the Turkish economy, accounting for 7 percent of GNP, 20 percent of industrial employment and 30 percent of total exports. All the state owned mills are privatized but quasi-government cooperatives still have some mills that are under operation. Privately owned textile mills represent 99 percent of the textile industry.

Total spinning capacity is estimated at about 1.85 MMT, of which about 1.5 MMT is for cotton and the remainder is for synthetics. Despite the domestic economic crisis and political problems in the region, the textile industry is the only sector in Turkey that continues to add additional capacity every year. Total domestic consumption is difficult to estimate without timely (and accurate) trade statistics because it is highly export-dependent and because there are significant incentives to under-report consumption to avoid taxes and other costs. Low domestic textile consumption caused utilization to decline in MY2002 but increased textile exports during the first five months of the CY2003, (up thirty percent), suggest that the cotton consumption in MY2003 will be higher at about 1.4 MMT.

The industry estimates that 40 percent of total textile production and 70 percent of ready-made garment production are exported. The EU remains Turkey's largest market. Germany is the leading importer within the EU. Textile exports to the FSU, mainly on a cash basis through a combination of small scale "suitcase trade" and regular border trade, have

been stagnating due to customs problems and increasing production in Russia. The United States is becoming an increasingly important market, accounting for twelve percent of total exports. While Turkey is focusing more on quality, increases in U.S. textile import quotas and the lifting of quotas for some items such as bathrobes and bed sheets have made the U.S. an important growing market.

Marketing Channels

The bulk of local cotton is sold directly to mills and the remainder is traded on a spot basis, mainly at the bourse in Izmir. The Izmir bourse also trades some cotton from other regions. There are smaller spot markets in Adana and the Southeast. Both cotton producers and the textile industry are expected to benefit from the establishment of a cotton futures market in Izmir. Preparations are continuing and the trading floor is expected to open in December 2003.

Trade

According to the official figures during the first eight months of MY2002 cotton imports are 238,078 MT, significantly less than the same period last year. Mills are reportedly taking advantage of the recent drop in U.S. prices and bookings are reported to be up and continuing. An additional 200,000 MT is expected to be imported during the last four months of the season bringing the total for the year to 450,000 MT. While total imports decreased, the market share of U.S. cotton is increasing. Imports from other sources such as Greece, Syria, and CIS countries are down significantly. Total imports from the U.S. were 145,381 MT during first eight months of MY2002, representing sixty-one percent of the total imports compared to fifty-two percent for last year. Total imports in MY2003 are projected to be higher than in MY2002, at about 525,000 MT with a strong U.S. cotton market share.

The driving force behind Turkey's growing imports is the rapid expansion of its export-oriented textile industry. The long-term question is whether future increases in production (mainly from the GAP) will be sufficient to meet increasing demand. Given the higher cost of production and the slow pace of development of the GAP, many observers expect Turkey to remain a net cotton importer for the foreseeable future.

Turkish exports of cotton during the first eight months of MY2002 have reached 33,706 MT. Total exports at the end of the year is expected to be about 45,000 MT. Italy and Portugal continue to be the leading export destinations for Turkish cotton. In 2003, Turkish cotton exports are forecast to be 35,000 MT.

(Note: The following trade matrix for is for the first eight months of the MY2002.)

Import Trade Matrix			
Country	Turkey		
Commodity	Cotton		
Time period	MY2002	Units:	Metric tons
Imports for:	Aug/Mar		1
U.S.	145,381	U.S.	
Others		Others	
Greece	40157		
Turkmenistan	11242		
Syria	4828		
Azerbaijan	4360		
Egypt	3695		
Brazil	3430		
Uzbekistan	3205		
Benin	2813		
Ethiopia	2050		
Israel	1554		
Total for Others	77334		0
Others not Listed	15363		
Grand Total	238078		0

Export Trade Matrix			
Country	Turkey		
Commodity	Cotton		
Time period	MY2002	Units:	Metric tons
Exports for:	Aug/Mar		1
U.S.		U.S.	
Others		Others	
Mersin Free Trade Zone	8506		
Italy	7754		
Portugal	3730		
Bangladesh	3551		
Germany	2260		
Kayseri Free Trade Zone	1676		
Belgium	1068		
Czech Republic	861		
Pakistan	737		
Thailand	613		
Total for Others	30756		0
Others not Listed	2950		
Grand Total	33706		0

Stocks

There are no official stock estimates but unofficial estimates are that MY2002 year-end stocks will be about 206,147 MT. Turkish mills, in general, prefer to maintain stocks at minimal levels due to the high cost of financing (approximately 5 percent per month). In April and May mills moved to take advantage of the drop in U.S. prices (and currency) and purchased larger than usual quantities which will help to keep stocks at reasonable levels for the industry.

Policy

Production Policy

Nearly 35 percent of the population lives in rural areas and earns the bulk of its income from farming. As a result, agriculture and rural development are top priorities for the government. The massive investments in the GAP are probably the best example of this policy. The quasi-government farmers' cooperatives, TARIS, Cukubirlik and Antbirlik have historically provided their members with low-cost loans, seed and fertilizer and are supposed to buy members' cotton at announced prices. As part of the IMF economic reform program, these cooperatives are not permitted to operate at a loss necessitating funds from the treasury. In practice however, the transition has been slow. The role of Cukubirlik in the Cukurova region, has been declining somewhat while TARIS, located in the Aegean region, continues to play an important role buying and selling cotton.

For the MY2002 crop the GOT recently issued a TL85,000 (approx USD \$0.05) per kilogram bonus payment for seed cotton in an effort to keep cotton and cotton products within the registered economy and support farmers. This payment has not yet been made to farmers. The GOT is under increasing pressure by the producers to continue with the program in coming years. Currently, no such bonus payment has been announced for the MY 2003 crop, however producers expect this support and make their production plans accordingly.

There are no specific government input subsidies for cotton. The GOT recently announced TL equivalent of 2.6 liter fuel support per dekar (about TL3,900,000 or USD \$2.70 per dekar) for all farmers (all crops) which is not very significant for cotton since per dekar fuel consumption for cotton farming is estimated about 21 liters.

As with all crops, subsidized credits from the Turkish Agricultural Bank and subsidies on the cost of all fertilizers stopped in October 2001. Irrigation water is provided by the State Irrigation Authority (DSI) for a fee but there is a continuing debate whether the price of water is below its actual cost. Pesticides are commercially available.

Trade Policy

Under Turkey's 2003 Import Regime, cotton imports from all sources remain duty-free.

Marketing

U.S. cotton enjoys a good reputation among Turkish spinners due to its consistent quality and the reputation of the United States as a reliable supplier. To maintain and expand its position in this growing market, new users will need to be identified. Appropriate trade servicing activities also need to be conducted to maximize the likelihood that they become repeat customers. Trade visits, timely seminars on U.S. cotton and export credit guarantee programs have been very successful in the past and are expected to continue to generate a great deal of interest.

TURKEY'S YARN AND FABRIC TRADE		
	EXPORTS	IMPORTS
	2002 (1000 kg)	2002 (1000 kg)
Cotton Yarn (MT)	73,452	48,565
Cotton Fabric (1)	21,909	26,330
Cotton Fabric (2)	61,635	75,649
(1) Cotton Fabric LTE	< 200 grm/per SQmtr	
(2) Cotton Fabric GT	> 200 grm/per SQmtr	